

MANAGEMENT BOARD COMMENTARY ON GORENJE GROUP PERFORMANCE AND OPERATIONS IN THE FIRST QUARTER OF 2016

Sales and profit grow in the first quarter

We stepped up our sales of innovative appliances and premium brand products, and increased sales beyond Europe. Earnings before interest and taxes (EBIT) for the first quarter amounts to EUR 6.8 million and net profit to EUR 0.6 million.

Velenje, May 20, 2016 – Gorenje Group's solid performance from the last quarter of 2015 continued in the first quarter of 2016 as we ended it with a EBIT of EUR 6.8 million and net profit of EUR 0.6 million, which is a considerable improvement over the first quarter of last year. Positive developments in the period include high growth rates for sales of major and small domestic appliances and favourable changes in the sales structure, both in terms of brands and products, and in terms of geographic distribution.

In Eastern Europe, sales increased in Slovenia, Hungary, Slovakia, Romania, Bulgaria, Montenegro, and Macedonia. Growth was also considerable in the markets of Russia and Ukraine (over 30%) where our revenue plans were exceeded and market position improved. In Western Europe, sales growth was notable in the Netherlands where our market share is also increasing. Sales were also up in North America, Caucasus region, Asia, and Brazil, which diminishes our reliance on the European markets.

Also contributing to the improvement of sales structure was the increase in the share of innovative and premium appliances and products under our premium brands Asko and Atag. Small domestic appliance sales were increased by good 18 percent.

Our revenue was up 6.5 percent, and our EBIT was up nearly 52 percent. In the first quarter of 2016, Gorenje Group generated EUR 285.5 million of revenue, which is 6.5 percent more than in the equivalent period of the year before. Operating profit (EBIT) amounted to EUR 6.8 million, which is nearly 52 percent more than in the first quarter of last year. Revenue from our core activity Home reached EUR 242.7 million (up 8.4 percent over the corresponding period of 2015), which is consistent with the planned revenue dynamics.

Raw and processed material costs adjusted to our sales

In the first three months of the year, we successfully managed our costs of raw and processed materials, logistics, warranty repairs, and labour. Consistently with our strategic policy, we stepped up investment into new product development to 3.1 percent of total Group sales revenue (up 0.1 percentage point relative to the equivalent period of 2015). Key new development results from the first quarter of 2016 include revised built-in under-counter refrigerator freezers with a width of 600 mm; 10-kg capacity washing machines for our strategic partner Panasonic; a line of premium built-in ovens Asko Craft; and a new line of mid-segment dishwashers for which mass production was launched last week. In order to improve the market communication and sales support, we invested EUR 6.2 million into marketing, which accounts for 2.2 percent of Gorenje Group revenue (up 0.5 percentage point relative to the comparable period of last year).

Stable conditions in the markets

Market conditions in the second quarter are stable, which is also reflected on the sales volume.

We are now focused on the activities to further promote sales growth and improve our sales structure, including in particular the development of new products and innovation, supply chain and complexity optimization, and further roll out of lean organization, quality management system, and planning. In order to further deleverage, we shall continue to generate free cash flow and carefully manage our working capital.

The 23rd regular Shareholders Assembly of Gorenje, d.d., will take place on July 8, 2016. The Gorenje Group business report for the first half of 2016 will be released on August 23, 2016.